Uncertainty vs. Security vs. Demographics: *The World's Dilemma in Employment Relations*

April 26, 2001

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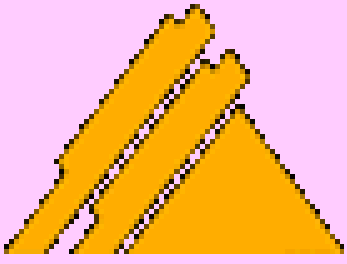
Anderson Graduate School of Management and

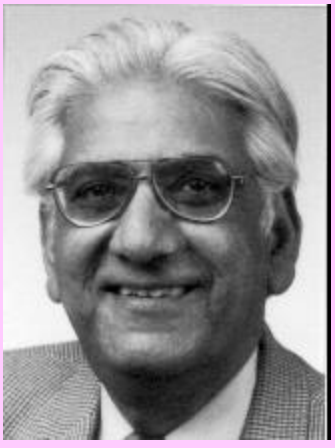
School of Public Policy and Social Research



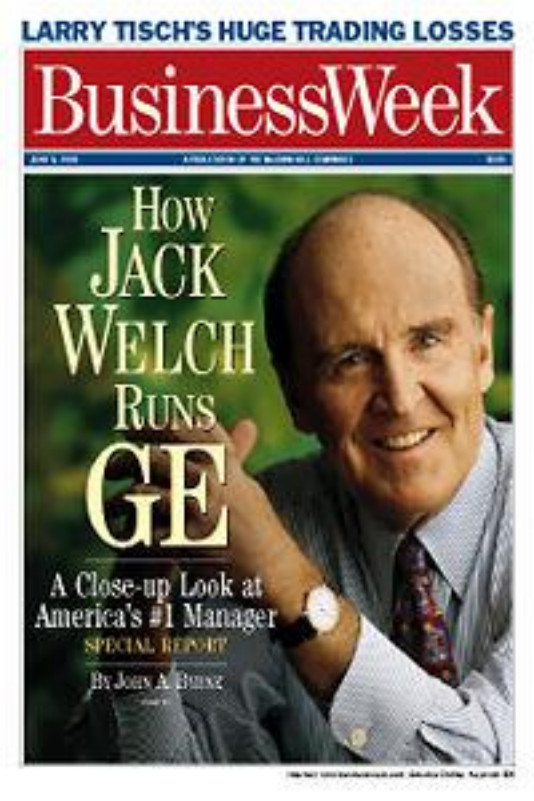
Theme:

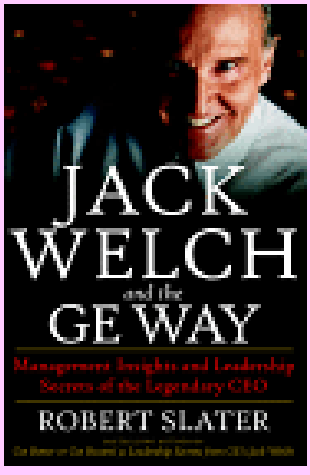
If we think of uncertainty as something "supplied" by the economic environment and a desire for security (driven by demographics) as a kind of "demand," there is a coming mismatch between what employers and government are likely to supply and what is likely to be demanded by employees.

BRUSSELS



The Jack Welch Model

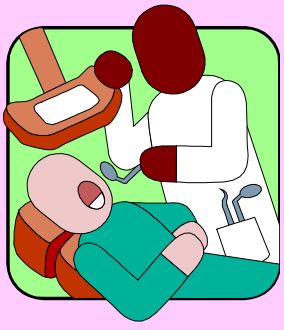

LARRY TISCH'S HUGE TRADING LOSSES
BusinessWeek
HOW JACK WELCH RUNS GE
A Close-up Look at America's #1 Manager
SPECIAL REPORT



"At the end of the week we cut your paycheck… we start afresh on Monday."

At least his wife loves him.

CRADLE

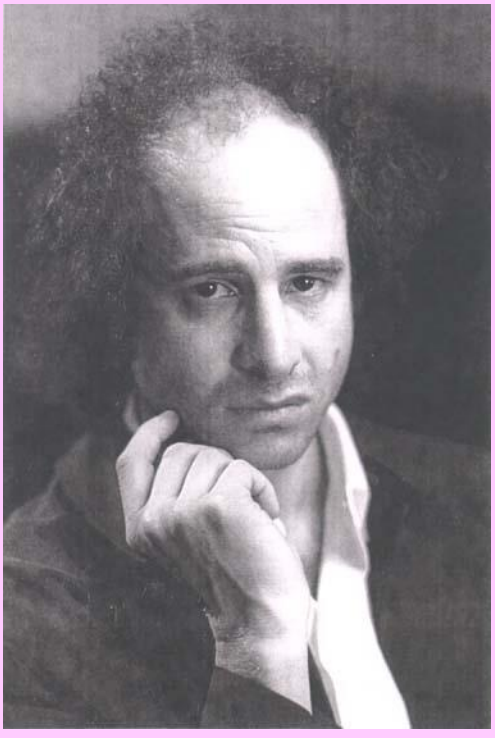


TO

GRAVE

“You can’t have everything. Where would you put it?’

Stephen Wright



Immediate Sources of Uncertainty

- **Product Markets**
  - Deregulation/privatization
  - New international competition
  - Changes in technology
- **Financial Markets**
  - Market for corporate control
  - Exchange rates

Consequences for:

Careerism

Unions

Uncertainty from product and financial markets affects labor markets

- **Shift in career patterns and protections**
- **Shift in work practices**
- **Shift in pay systems**
- **Shift in benefits**
- **Shift in collective bargaining**
- **Demands on government**

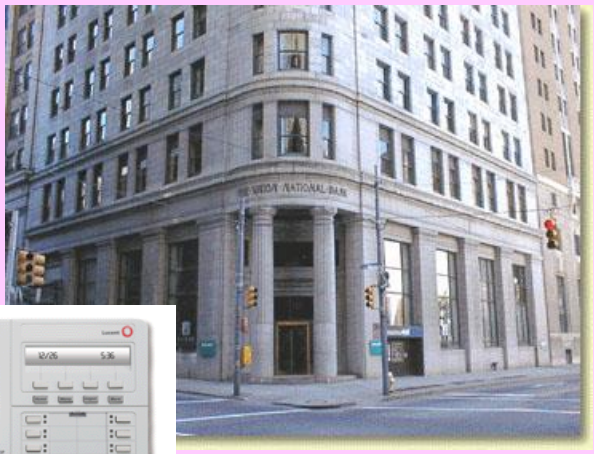
Longer Term Uncertainty

Demographic trend (aging) strains public social insurance systems and private benefit plans

- Pensions
- Health care
- *Take up later*

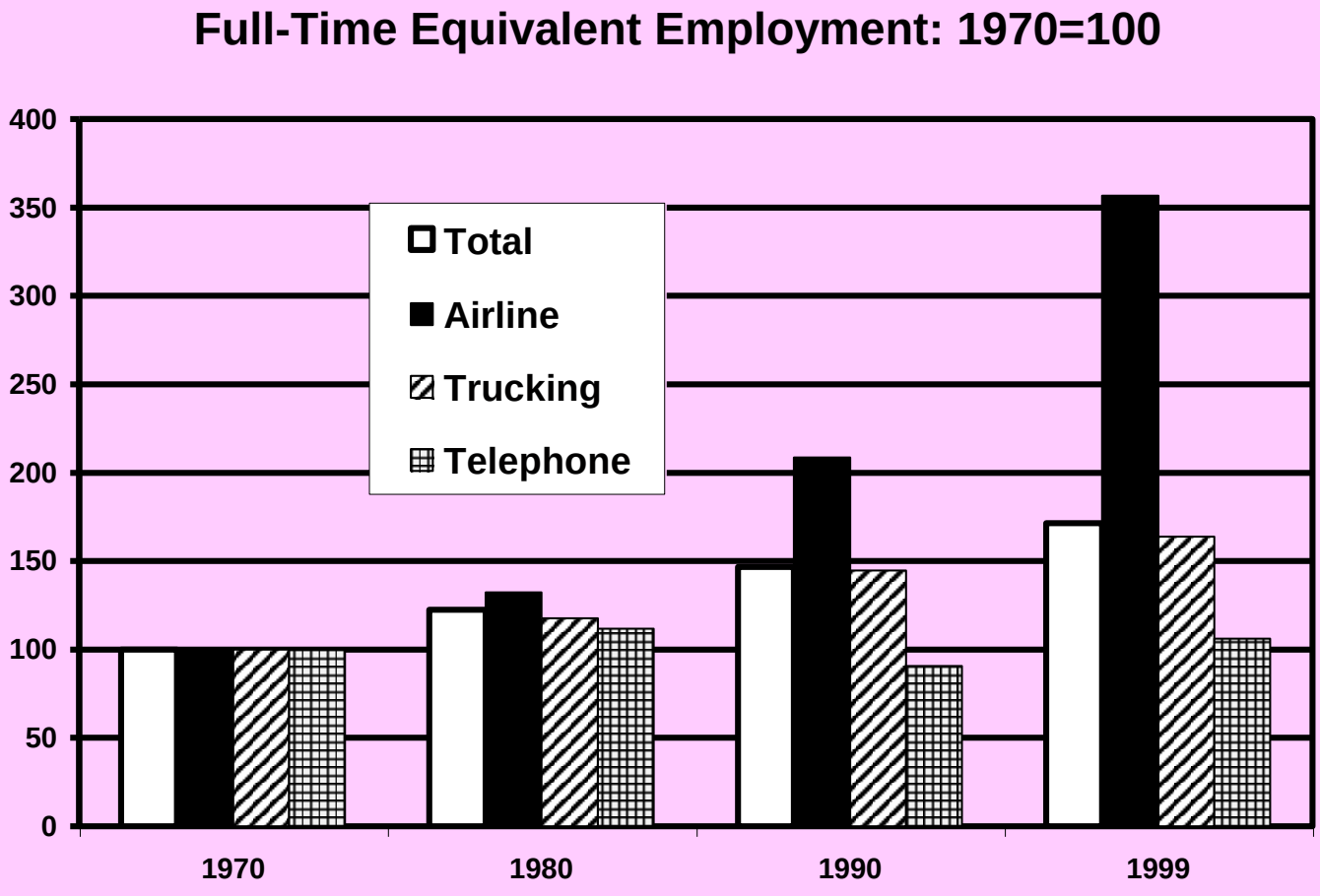
Deregulation/ privatization

- Airlines
- Trucking
- Railroads
- Broadcasting
- Financial institutions
- Utilities

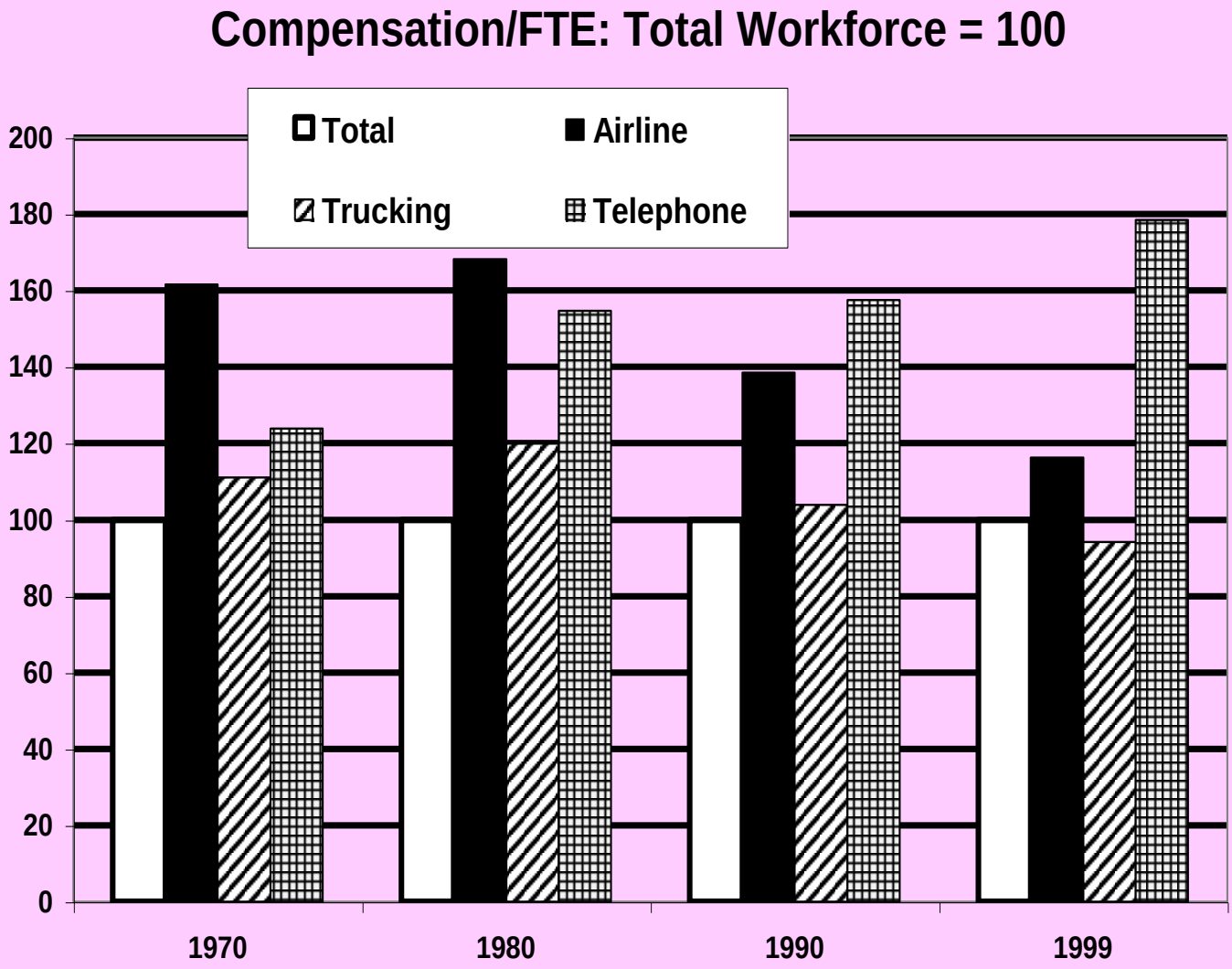


Product Markets

Deregulation and Employment



Deregulation and Pay



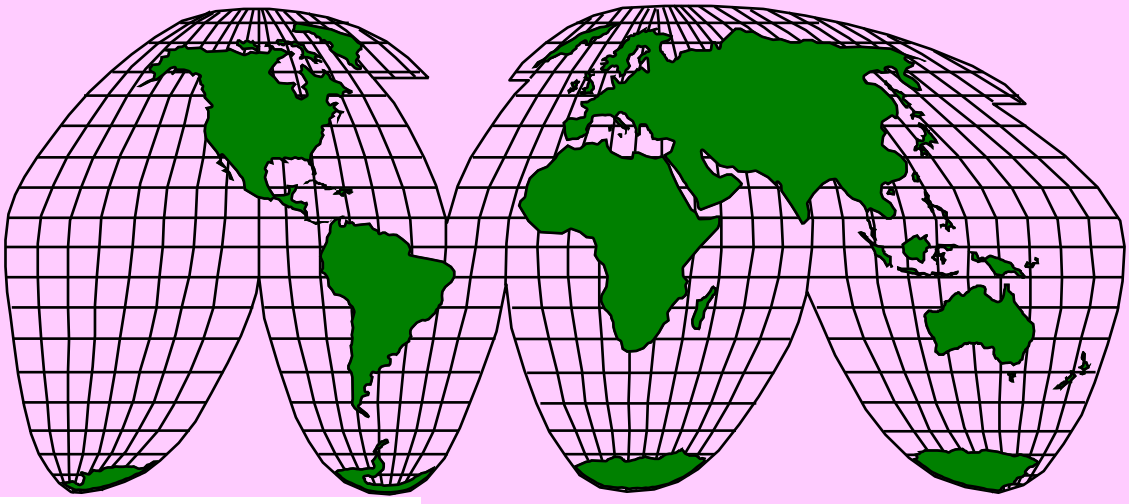
***Discussion Issue*: In a move from regulation to deregulation, what redesign is necessary- if any - for the following HR practices?**

- **Recruitment**
- **Training**
- **Evaluation and reward**
- **Pay determination**
- **Incentives**
- **Benefits**
- **Employee relations**
  - **Union**
  - **Nonunion**

Product Markets

New international competition

- China
- 4 Tigers
- Other Asia
- Mexico
- Eastern Europe



Product Markets

Seattle WTO Meeting: 1999

Labor Standards in International Trade

- **Through international treaties**
- **Through ILO (or WTO?)**
- **Through coordinated union bargaining**
- **Through pressure on MNCs**

WORLD TRADE ORGANIZATION

ILO

Product Markets

Discussion Issues

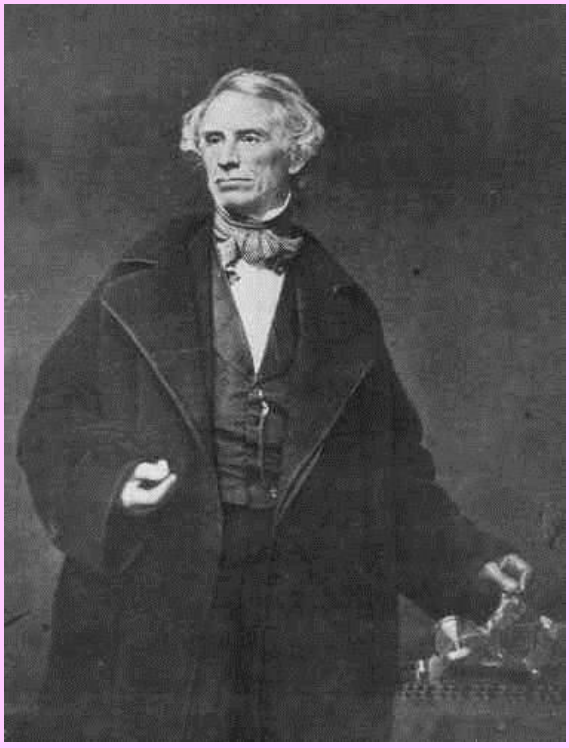
- **Is more globalization inevitable or will there be a "Seattle" backlash?**
- **Should there be labor standards in international trade? If "yes," set by whom?**

- **Does international competition have different implications for HR than domestic competition?**
- **In a multinational setting, should HR policies be left to local practice and authority?**

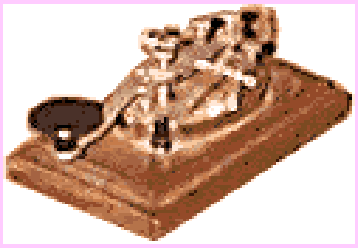
Product Markets

Changes in technology

- *Create new products and may make old ones obsolete*
- *Create demand for occupations tied to new technology; may reduce demand for occupations tied to old technology*



Samuel F.B. Morse



Product Markets

Changes in technology

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Alexander Graham Bell

Product Markets

Changes in technology

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Product Markets

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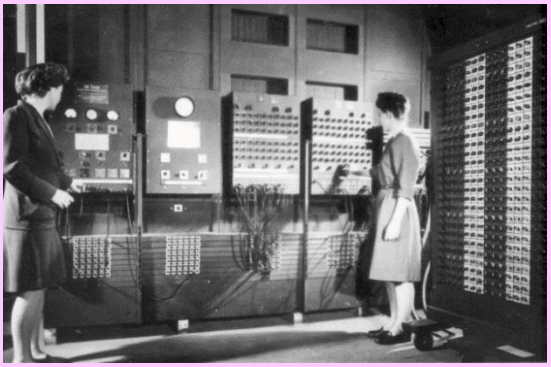
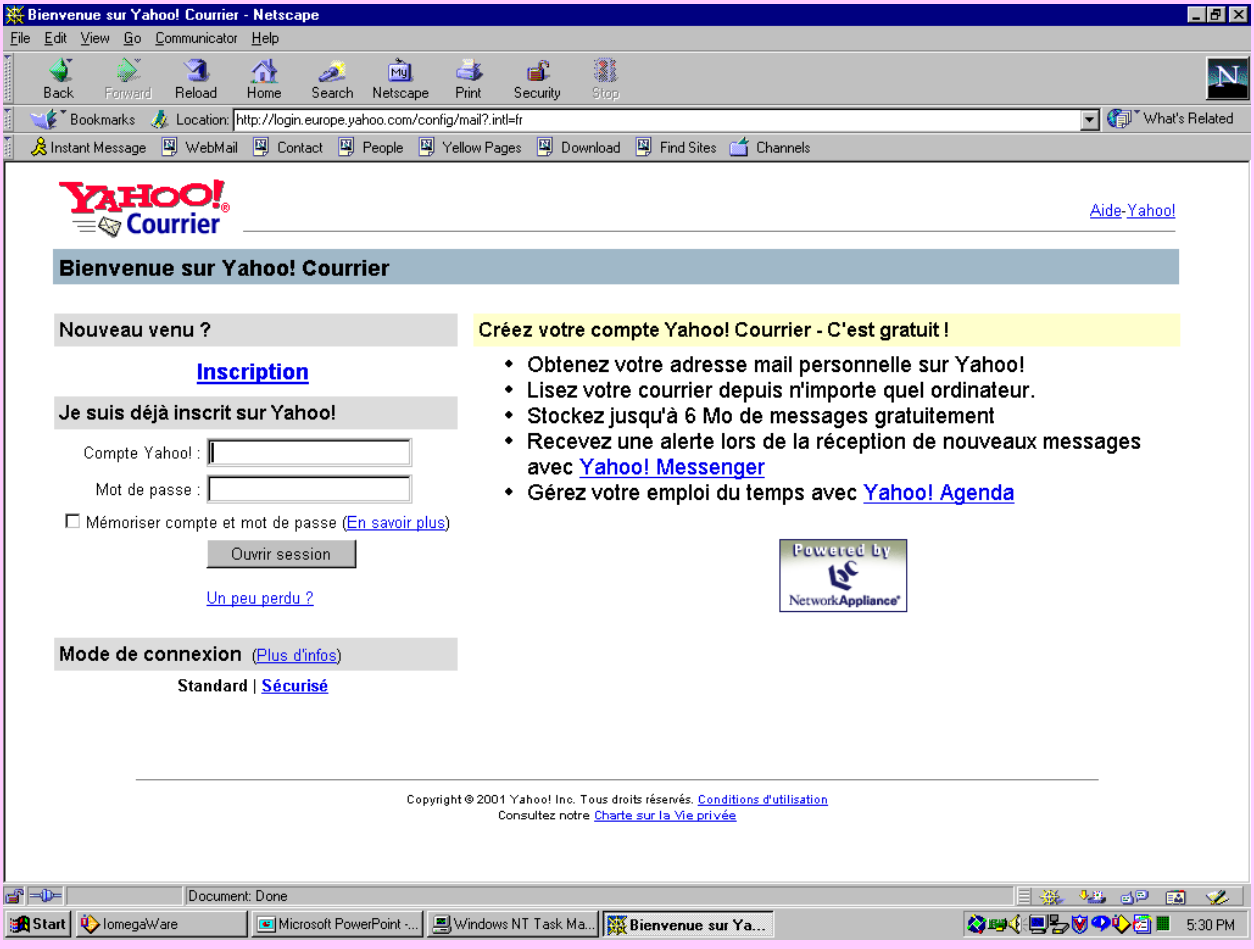


Product Markets

Changes in technology


Bienvenue sur Yahoo! Courrier - Netscape
File Edit View Go Communicator Help
Back Forward Reload Home Search Netscape Print Security Stop
Bookmarks Location: http://login.europe.yahoo.com/config/mail?.intl=fr
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Bienvenue sur Yahoo! Courrier
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Mode de connexion (Plus d'infos)
Standard | Sécurisé
Créez votre compte Yahoo! Courrier - C'est gratuit !
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Stockez jusqu'à 6 Mo de messages gratuitement
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Document: Done
Start IomegaWare Microsoft PowerPoint -... Windows NT Task Ma... Bienvenue sur Ya... 5:30 PM

Product Markets

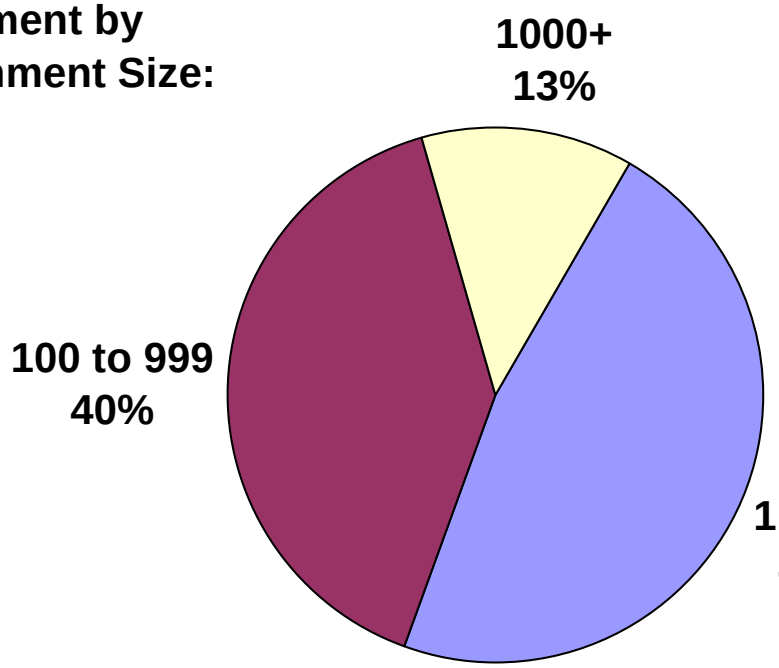
Discussion Issues

- **Is there something "new" about new technology?**
- **If "yes," what are the implications for HR?**
  - **Recruitment**
  - **Training**
  - **Evaluation and reward**
  - **Pay determination**
  - **Incentives**
  - **Benefits**
  - **Employee relations**

Product Markets

Scale of Production Changes

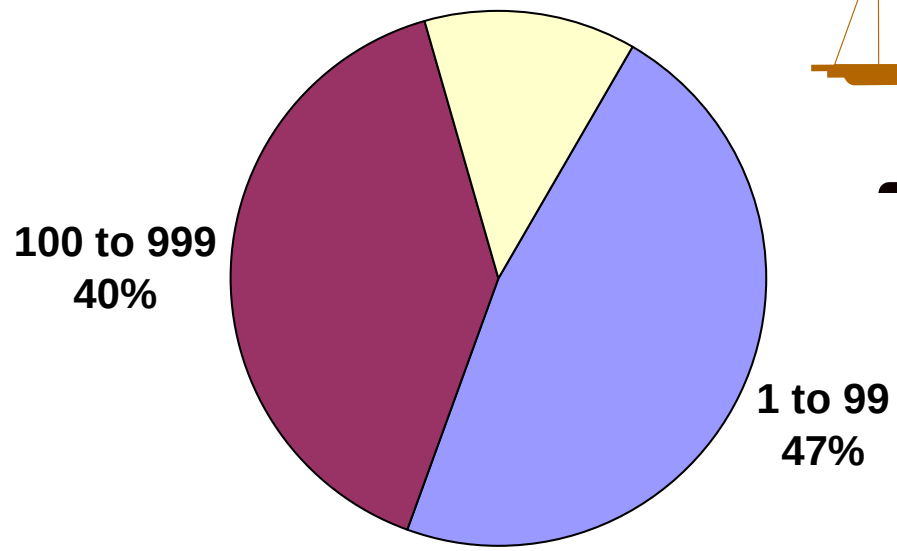
Distribution of Employment by Establishment Size: 1979



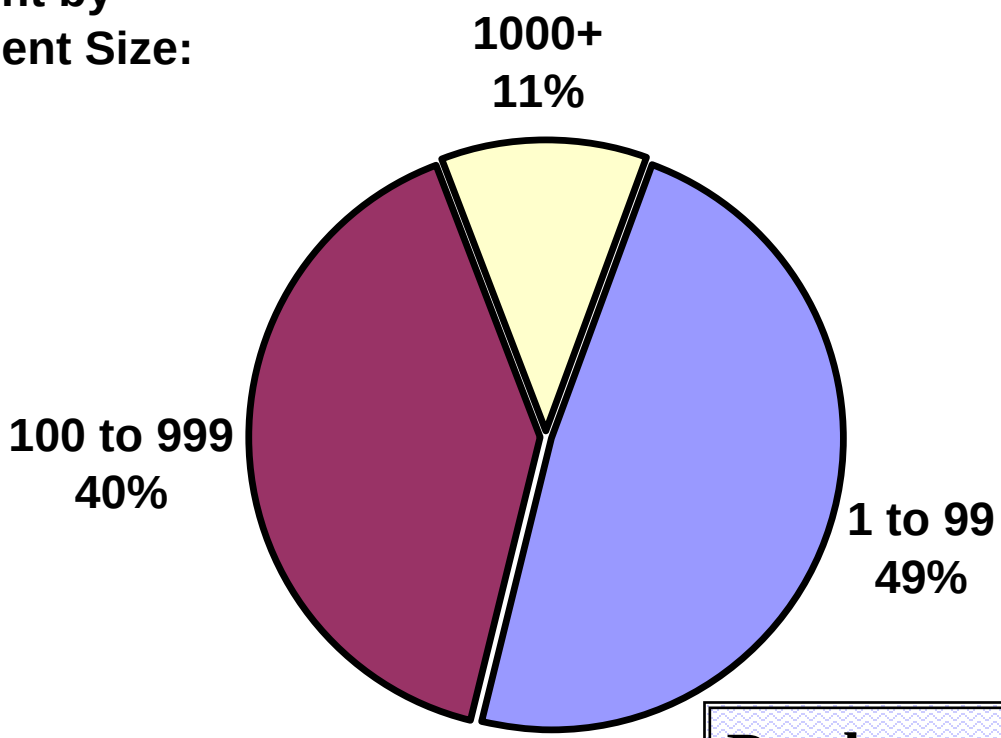
Source: County Business Patterns

Product Markets

Distribution of Employment by Estabishment Size: 1979

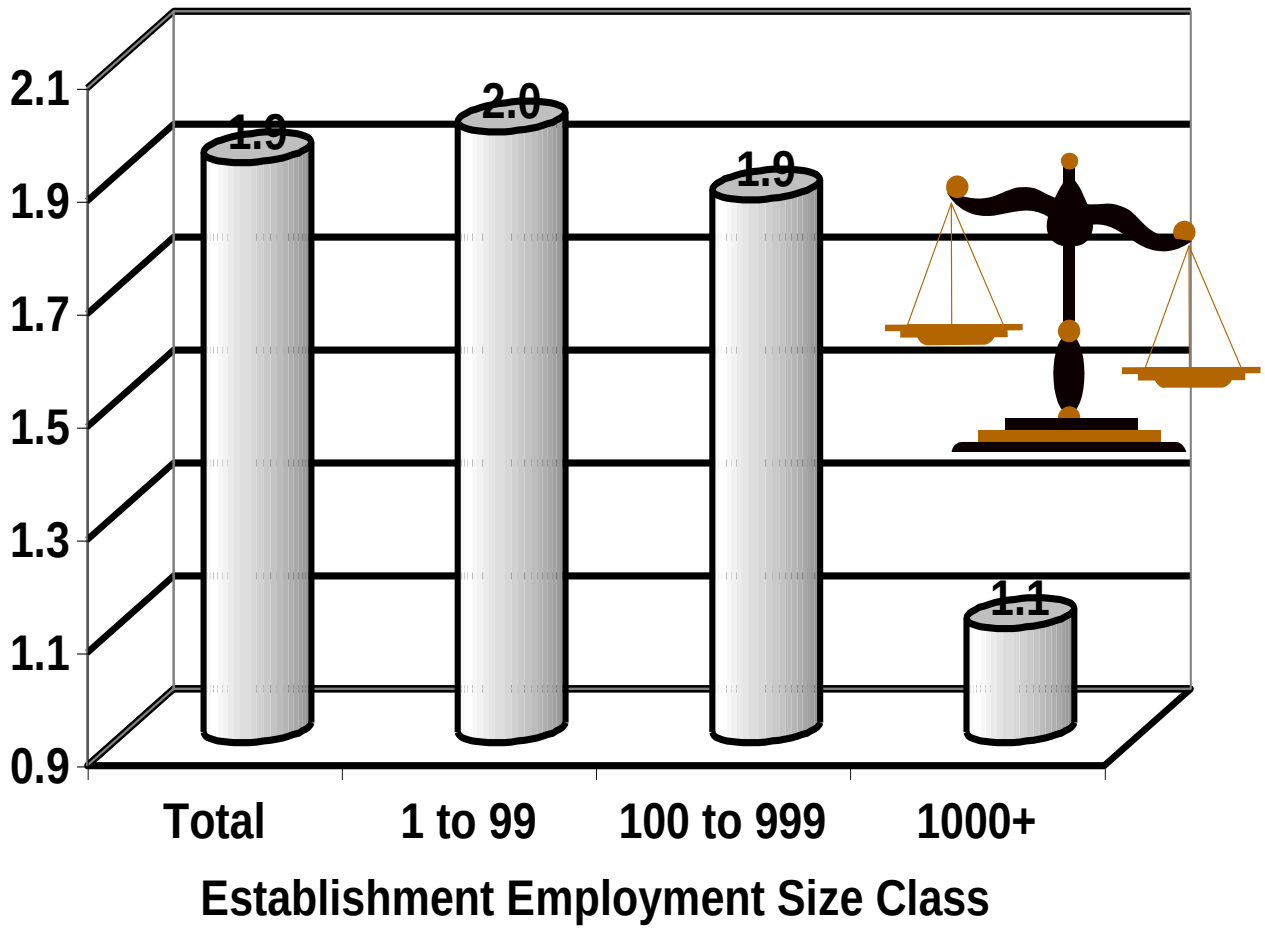


Distribution of Employment by Estabishment Size: 1997



Product Markets

Scale of Production Changes



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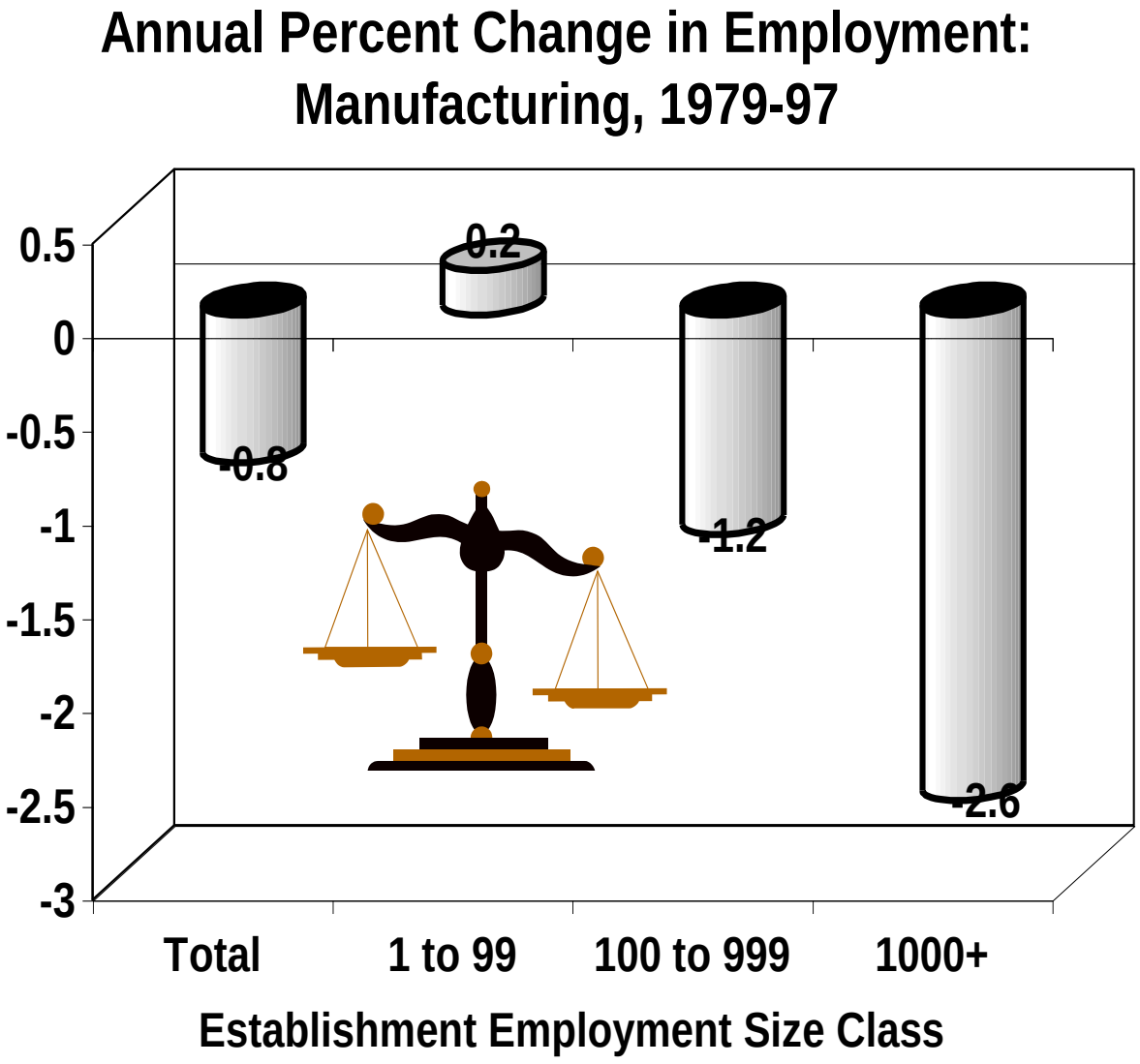
Product Markets

Scale of Production Changes



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Product Markets

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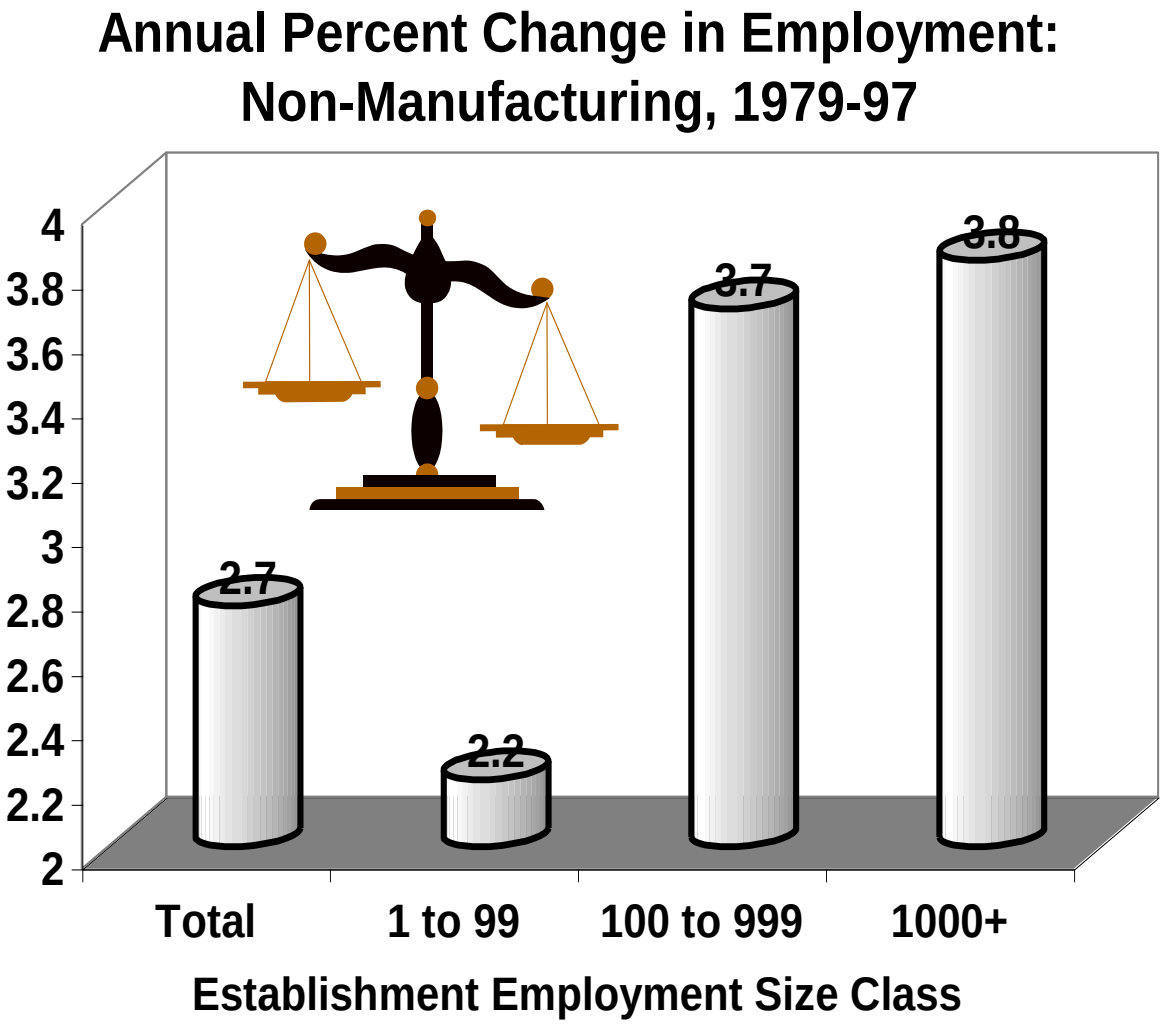


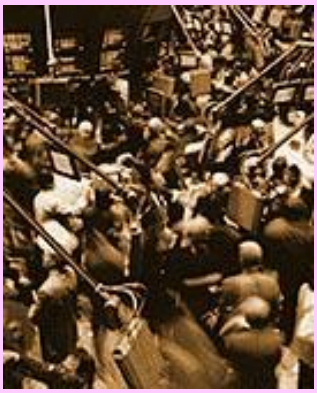
Source: County Business Patterns

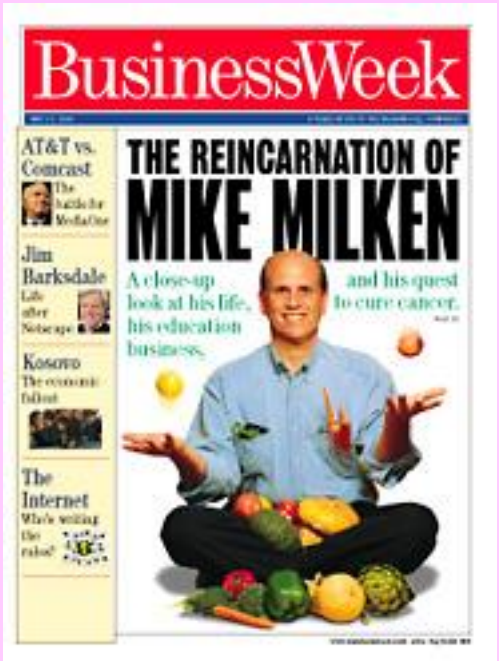
Product Markets

Market for corporate control

- *Mergers and acquisitions*
- *Hostile takeovers*
- *Financial approach*

Carl Icahn





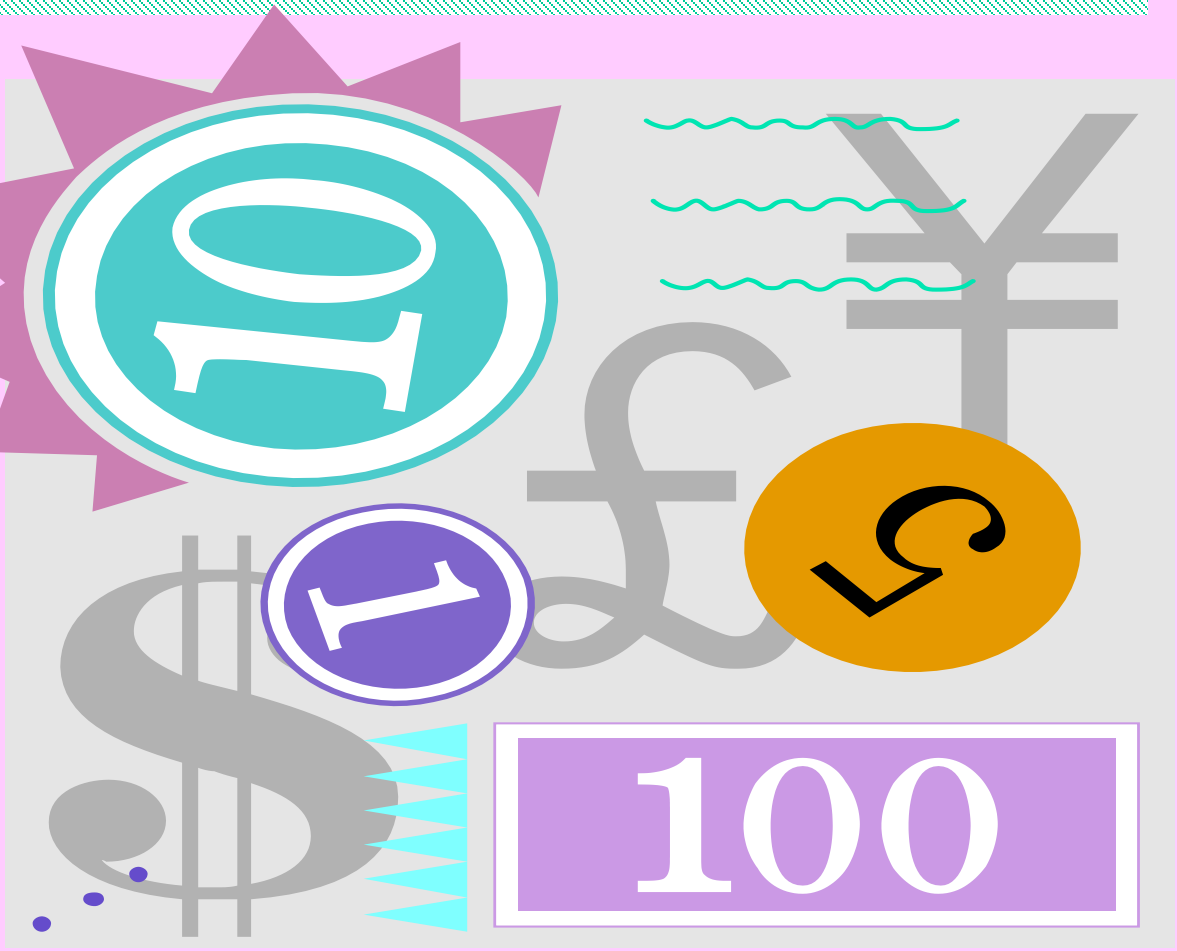
T. Boone Pickens

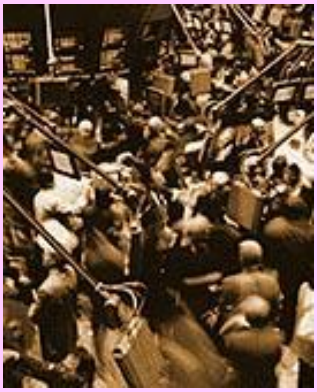
Financial Markets

Discussion Issues

- **What is the role of HR in corporate restructurings?**
- **Is HR wedded to the organization view of the enterprise or compatible with the financial view?**

Exchange rates





Financial Markets

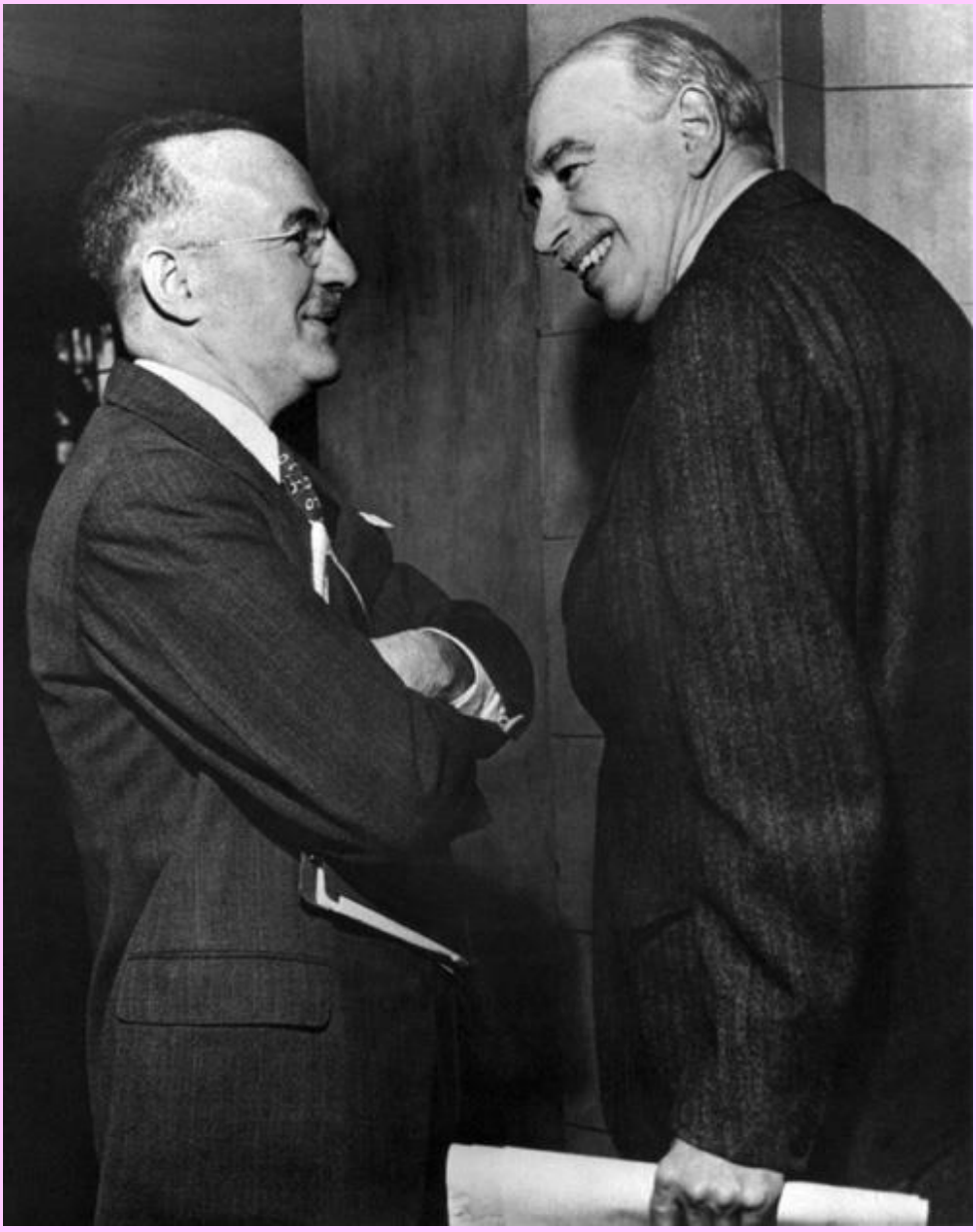
What is this?

Mt. Washington Hotel

Where is it?

Bretton Woods, N.H.

Financial Markets



Harry Dexter White (left) and John Maynard Keynes (right)

Financial Markets

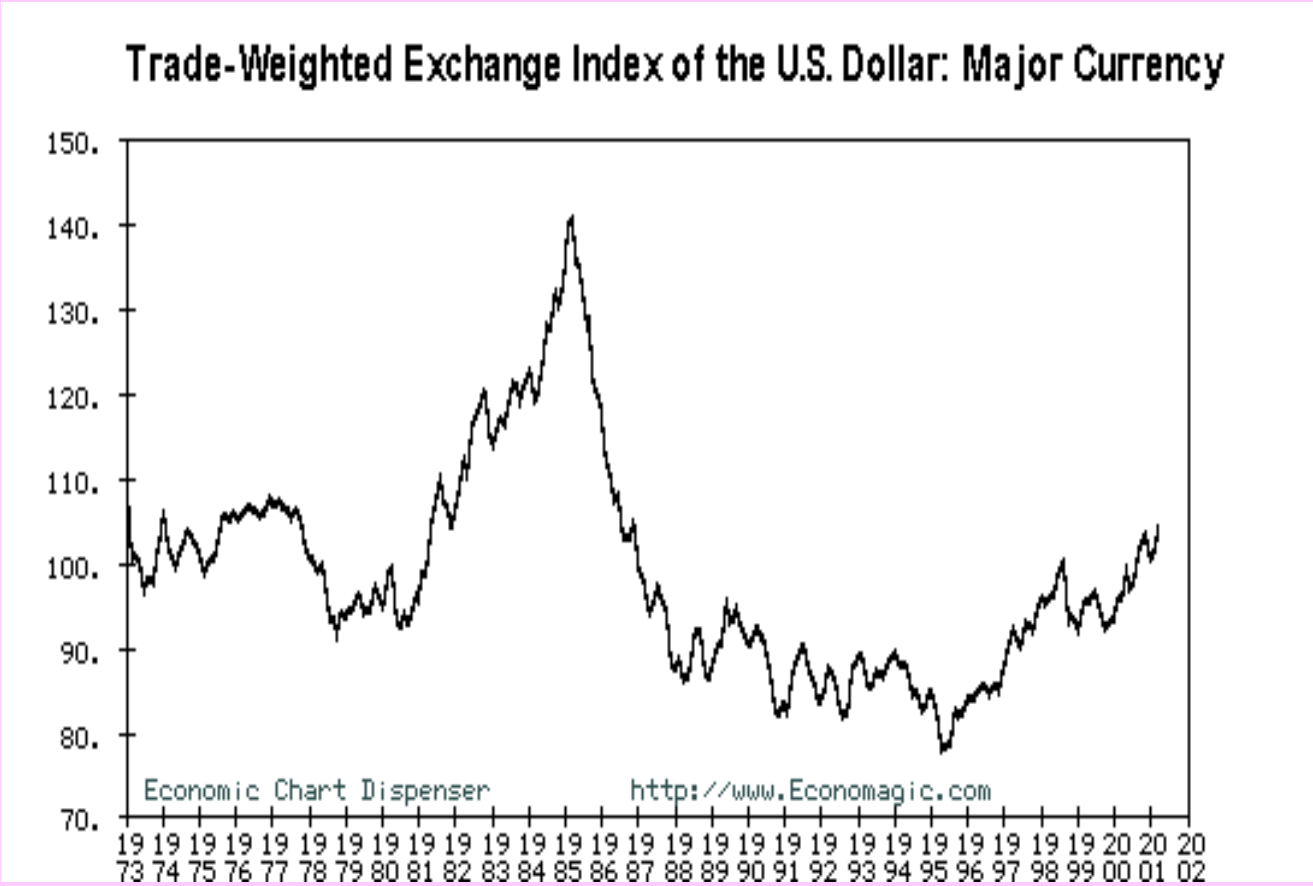
Arthur F. Burns

Richard Nixon

John Connally

Financial Markets

Notable Developments



Financial Markets

Notable Developments

- *Wild appreciation - then depreciation - of U.S. dollar in 1980s*
- *Soros vs. the British pound in 1992*
- *Mexican peso crisis*
- *Asian financial crisis*
- *Euro*

George Soros

California Economic Policy

Financial Markets

If California were a country, it would be the...

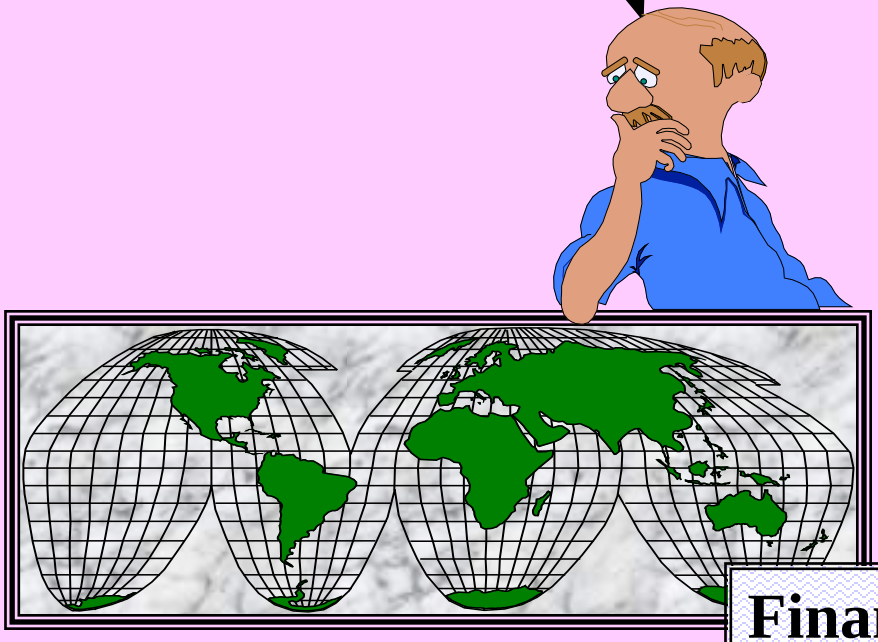
- 5th
- 6th
- 7th
- 8th

largest country in the world depending on the year chosen.

What does this statement mean?

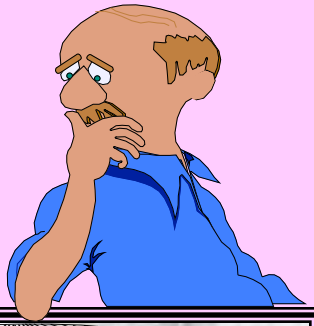
Financial Markets

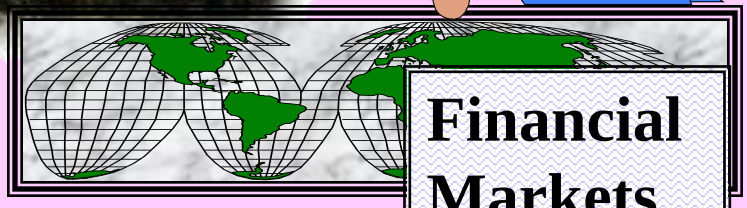
What makes a country?



Financial Markets

Having a government?





Financial Markets

Belonging to the UN?

Switzerland?

Taiwan?

Having a post office and issuing stamps?

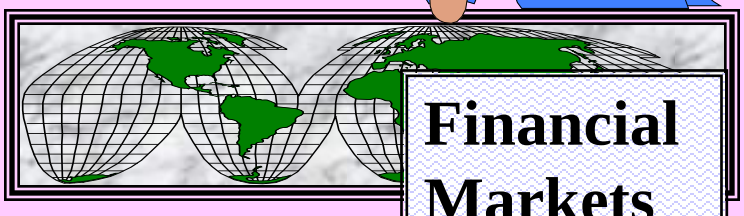
UN?

Speaking a common language?

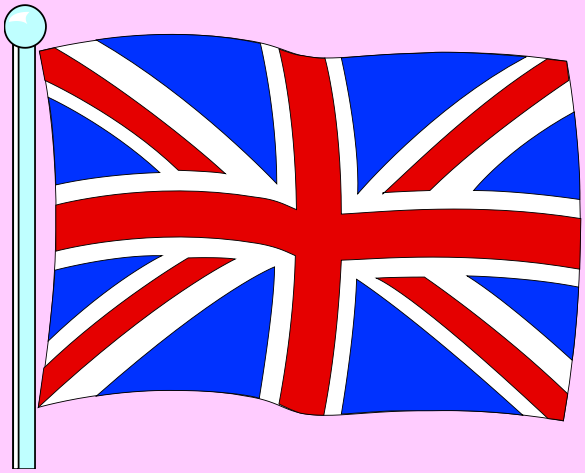
The Tower of Babel
by Pieter Bruegel (c. 1525-69)

Belgium?

India?



Having a flag?



Sovereignty?

“I am the master of my fate;

I am the captain of my soul.”

William Ernest Henley

Invictus

Economic Sovereignty?

“I am the master of my fate;

I am the captain of my soul.”

William Ernest Henley

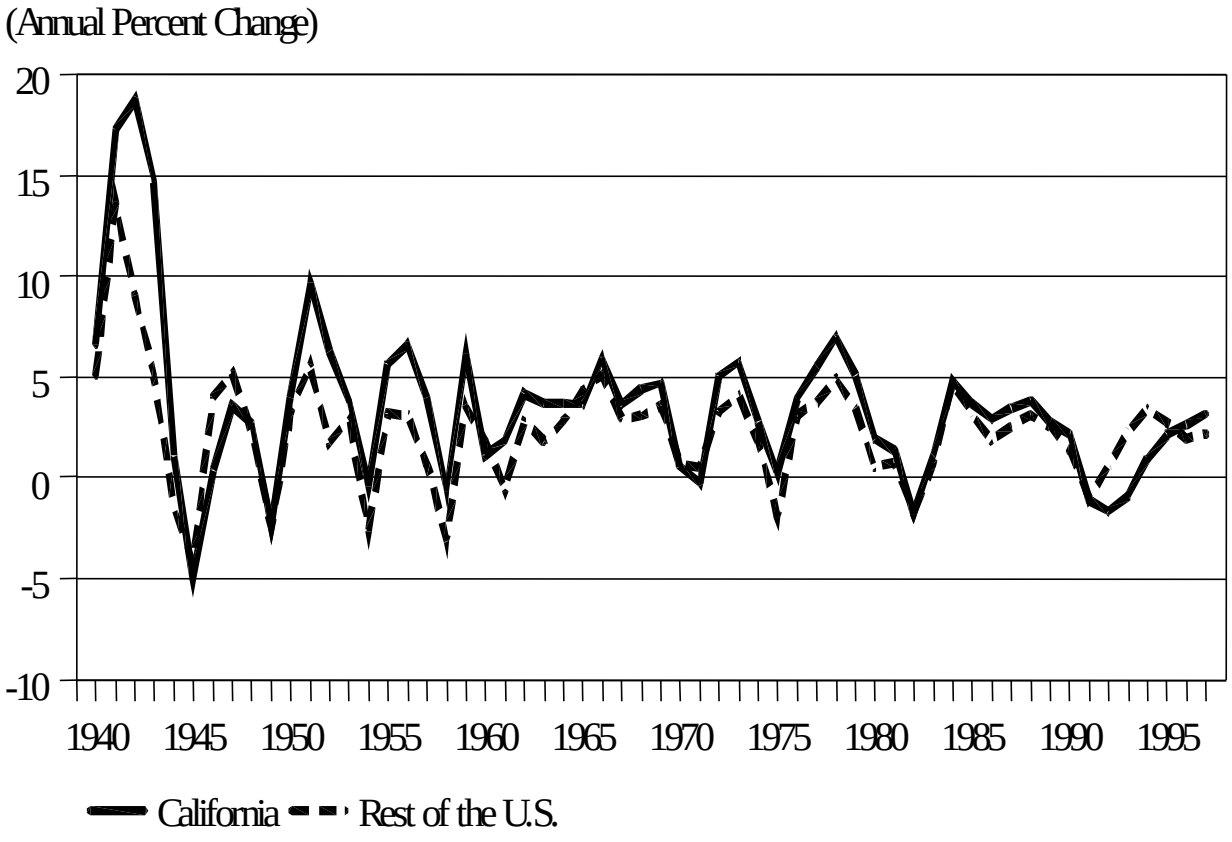
Invictus

Eur-Only as Sovereign as Your Money

California's Lessons for the European Union

Financial Markets

Chart 1: Annual Percent Change in Nonfarm Payroll Employment: California and the Rest of the U.S., 1940-1997



Source: U.S. Bureau of Labor Statistics

Financial Markets

California has no Alan Greenspan

- **There is no California currency**

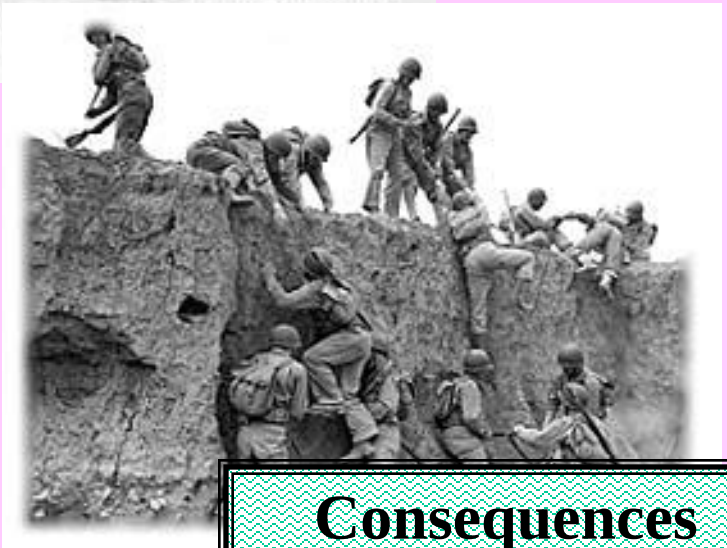
- **California can't set interest rates**
- **Its govt. can't run big deficits for long**

Financial Markets

Discussion Issues

- **Will the EU's move to a common currency be judged a "success" a decade from now?**
- **Will the creation of the euro lead to other monetary unification, e.g., within NAFTA?**
- **Does monetary integration have any HR implications?**

Roots of Careerism



Consequences

Discussion Issue

- **Is there really the "death of the job?"**

Shrinking Unions

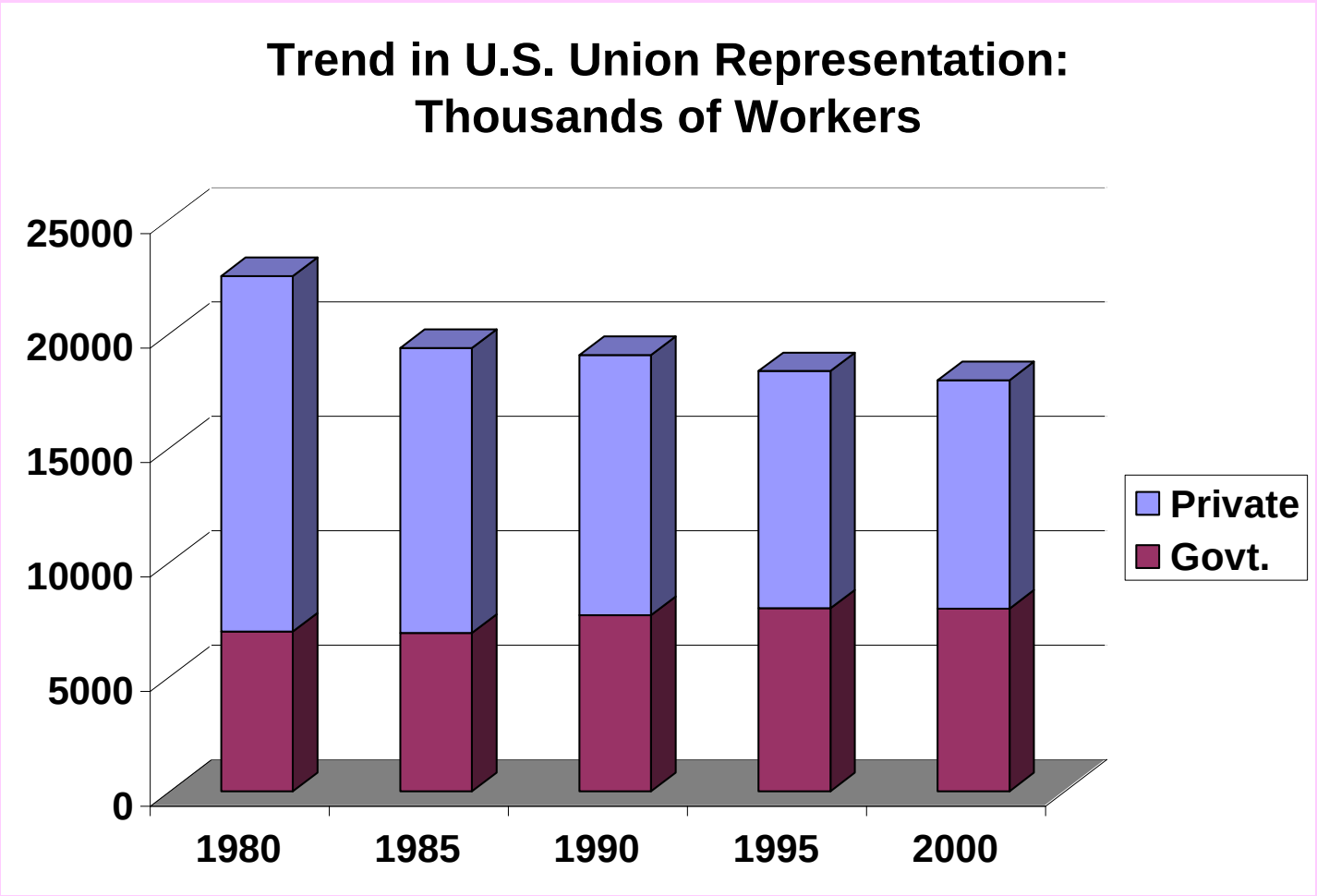
Consequences

Shrinking Unions

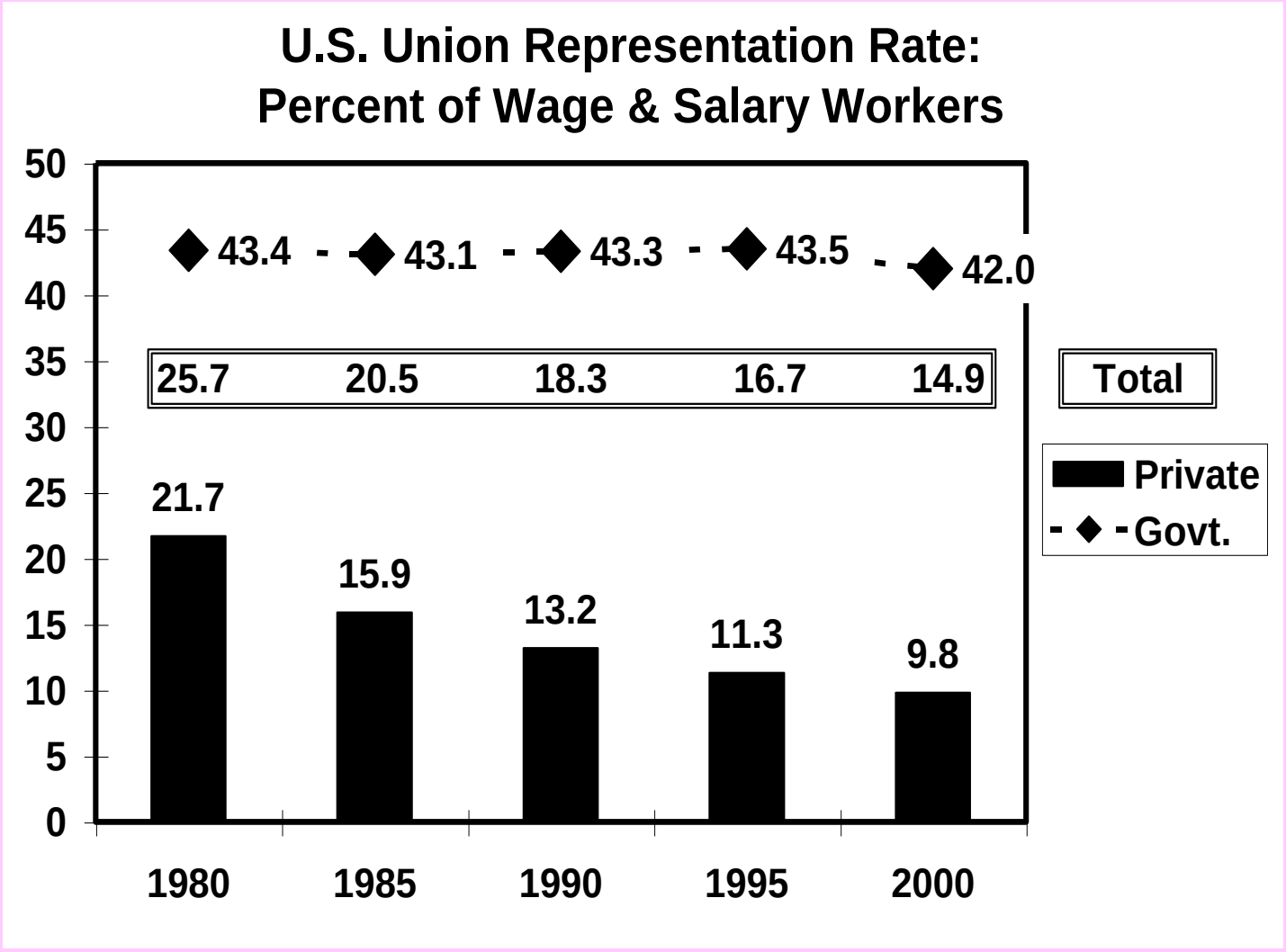
Consequences

Shrinking Unions

Consequences

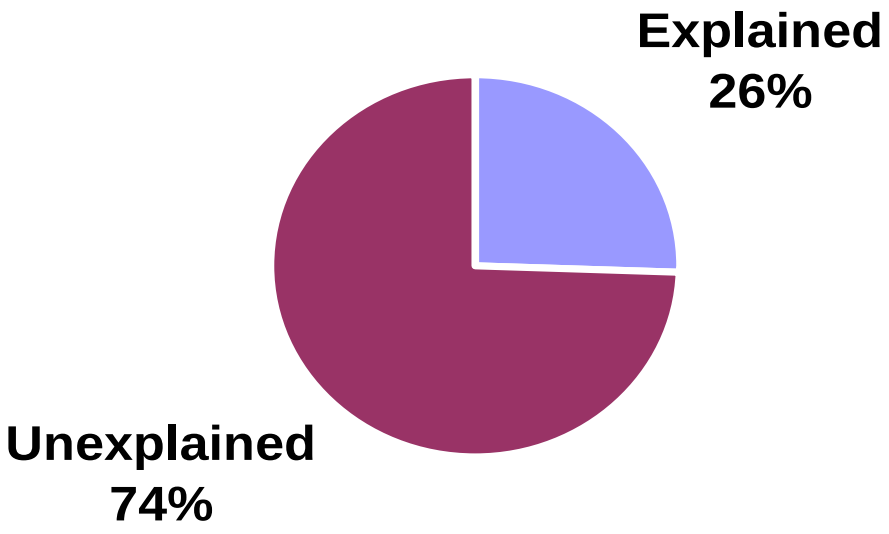


Consequences



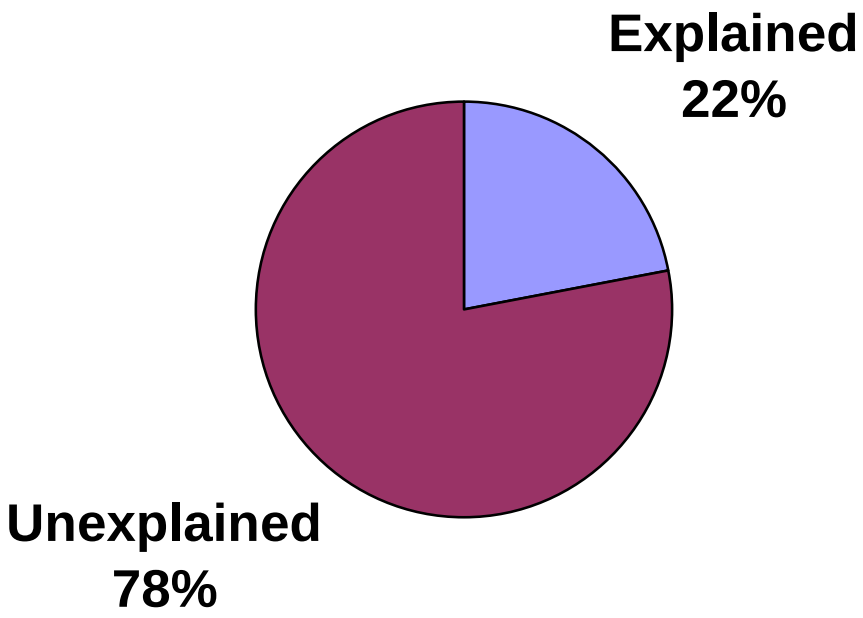
Consequences

Portion of Drop in Total Unionization Rate Explained and Unexplained by Industry Mix Change: 1980-2000



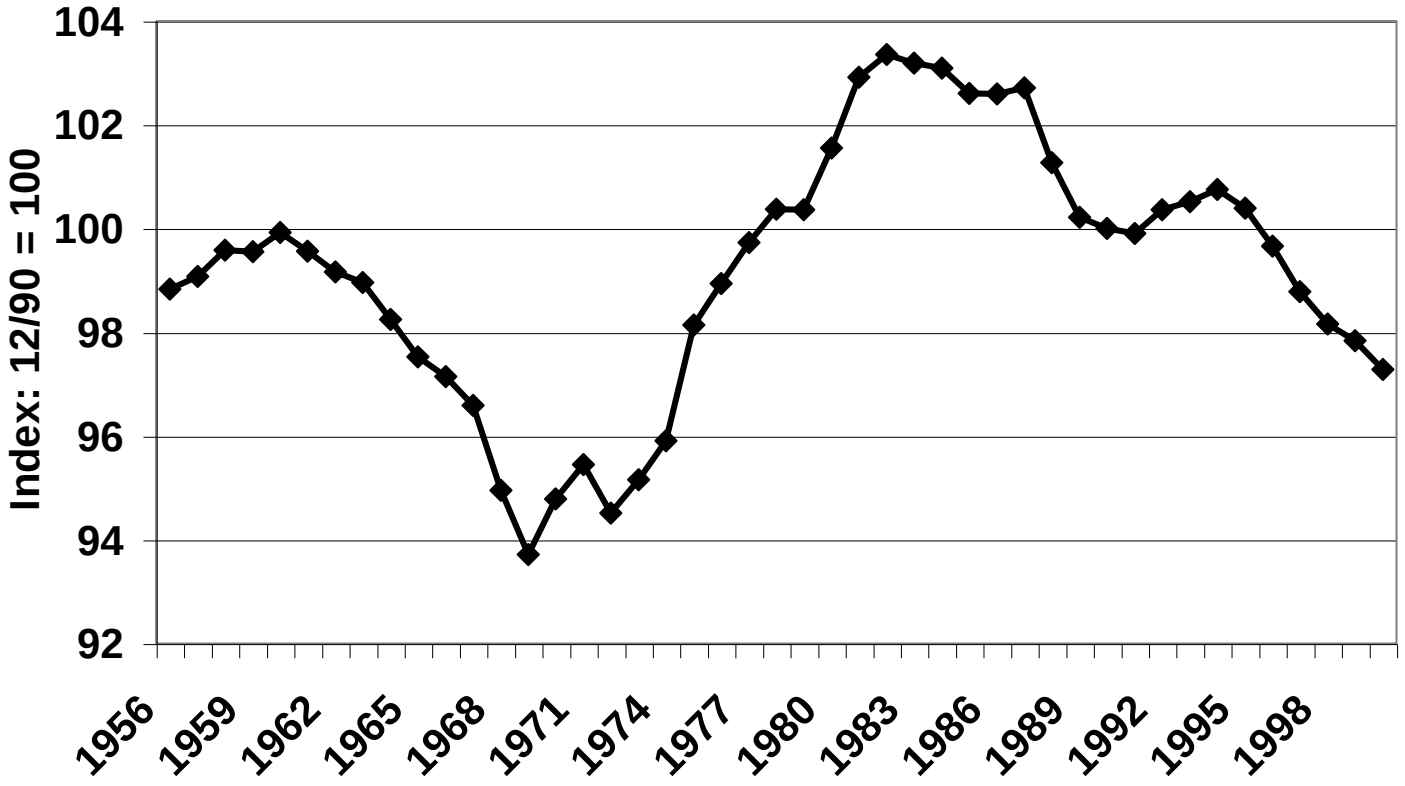
Consequences

Portion of Drop in Private Unionization Rate Explained and Unexplained by Industry Mix Change: 1980-2000



Consequences

Union Wage/Economy Wage



Consequences

New Developments

- **Shift to political action**
- **Shift to more insulated sectors**
- **Shift to workers where public sympathy is high**

Consequences

Discussion Issues

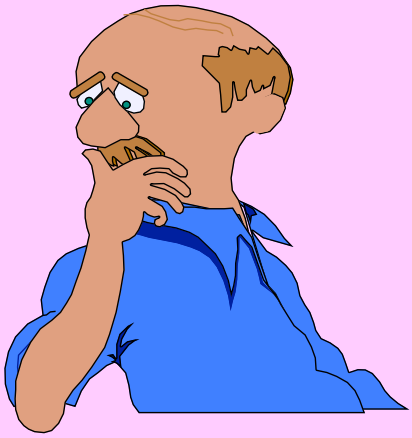
- **What caused the decline in representation in the U.S. and elsewhere?**
- **Can unions reverse the decline in representation? (Will they if it is possible?)**
- **Will they continue to influence workplace practices, even if they do not reverse the decline?**

Consequences

- **Provide incentives**
- **Share risk**
- **Foster entrepreneurship**
- **Economic stabilization**

Consequences

How Do You Get the Help to Do What You Want?



aka

The Principal/Agent Problem

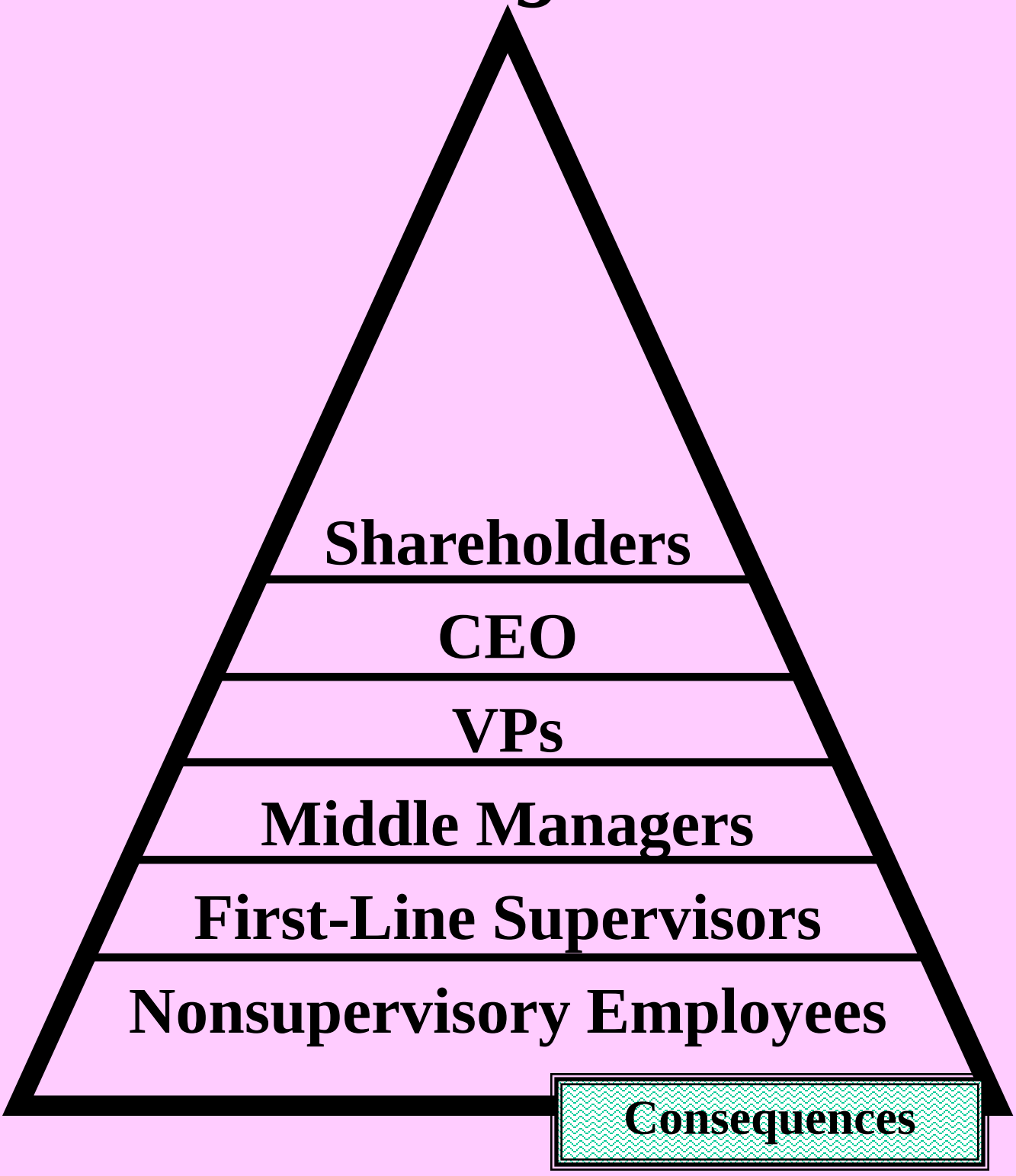
(Agency Theory)

Consequences

The floggings will continue until morale improves.

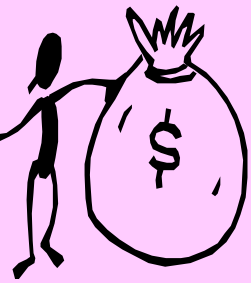
Consequences

Hierarchy of Principals and Agents

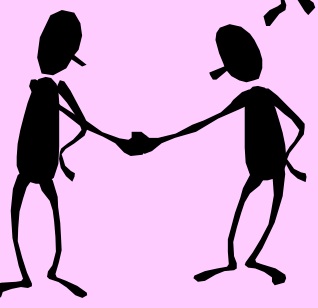


How Do You Get the Help to Do What You Want?

- **Compensate**



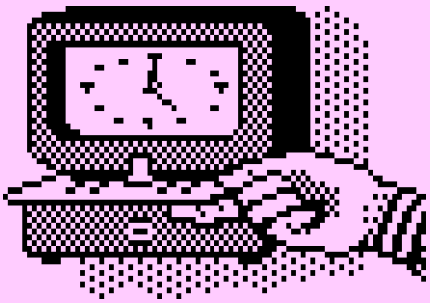
- **Motivate**

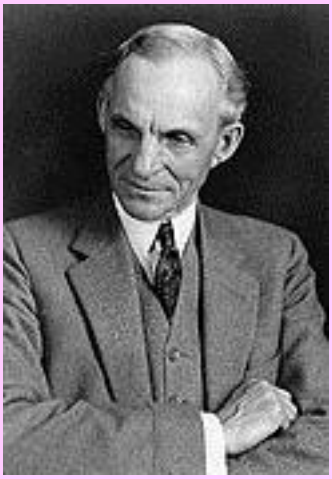


- **Monitor and Control**

Consequences

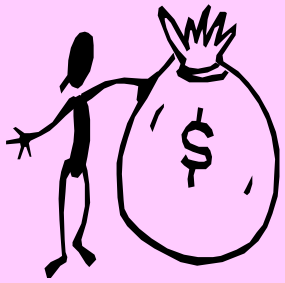
Frederick Taylor
Henry Ford





Consequences

Where Does the Enterprise End Up?



Compensate

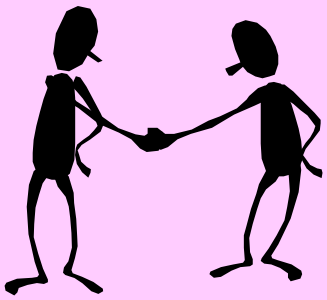
1980s ---

Taylor/Ford

Motivate

1950s

Monitor and Control



"New" Pay Systems

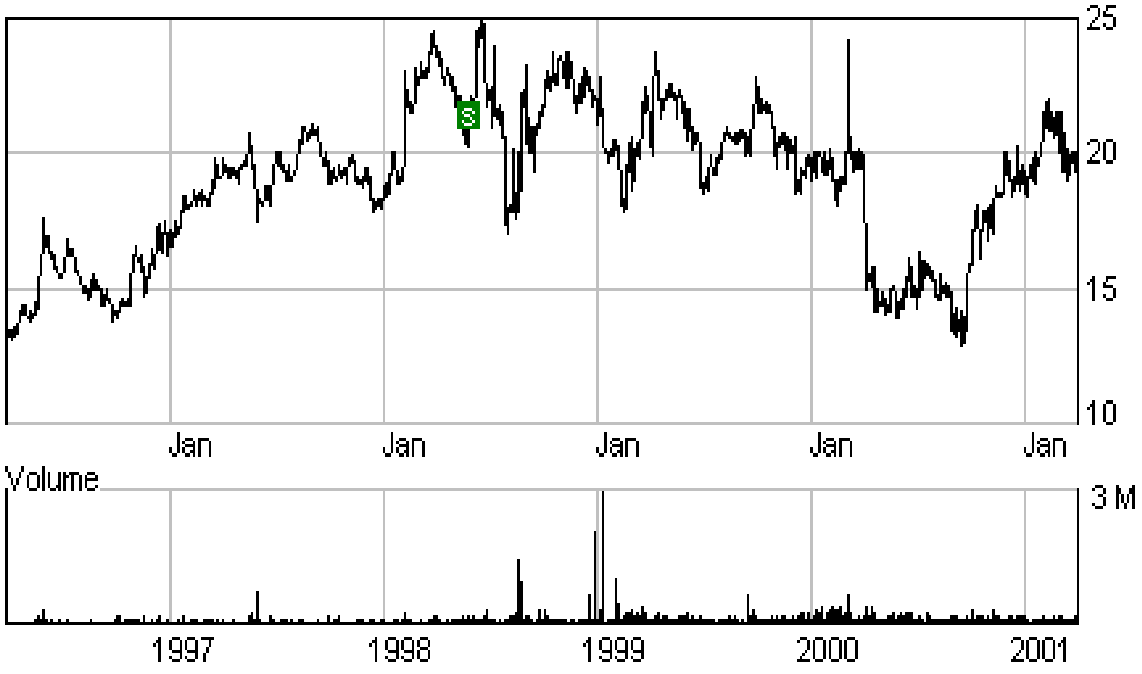
Consequences

Discussion Issue

- **Is the Lincoln Electric approach of individual and group pay for performance the coming thing in compensation?**
- **If so, why is it taking so long?**

Consequences

Lincoln Stock Price History



Period : Apr-25-1996 - Apr-25-2001

Consequences

Demographic trend (aging) strains public social insurance systems and private benefit plans

- Pensions
- Health care

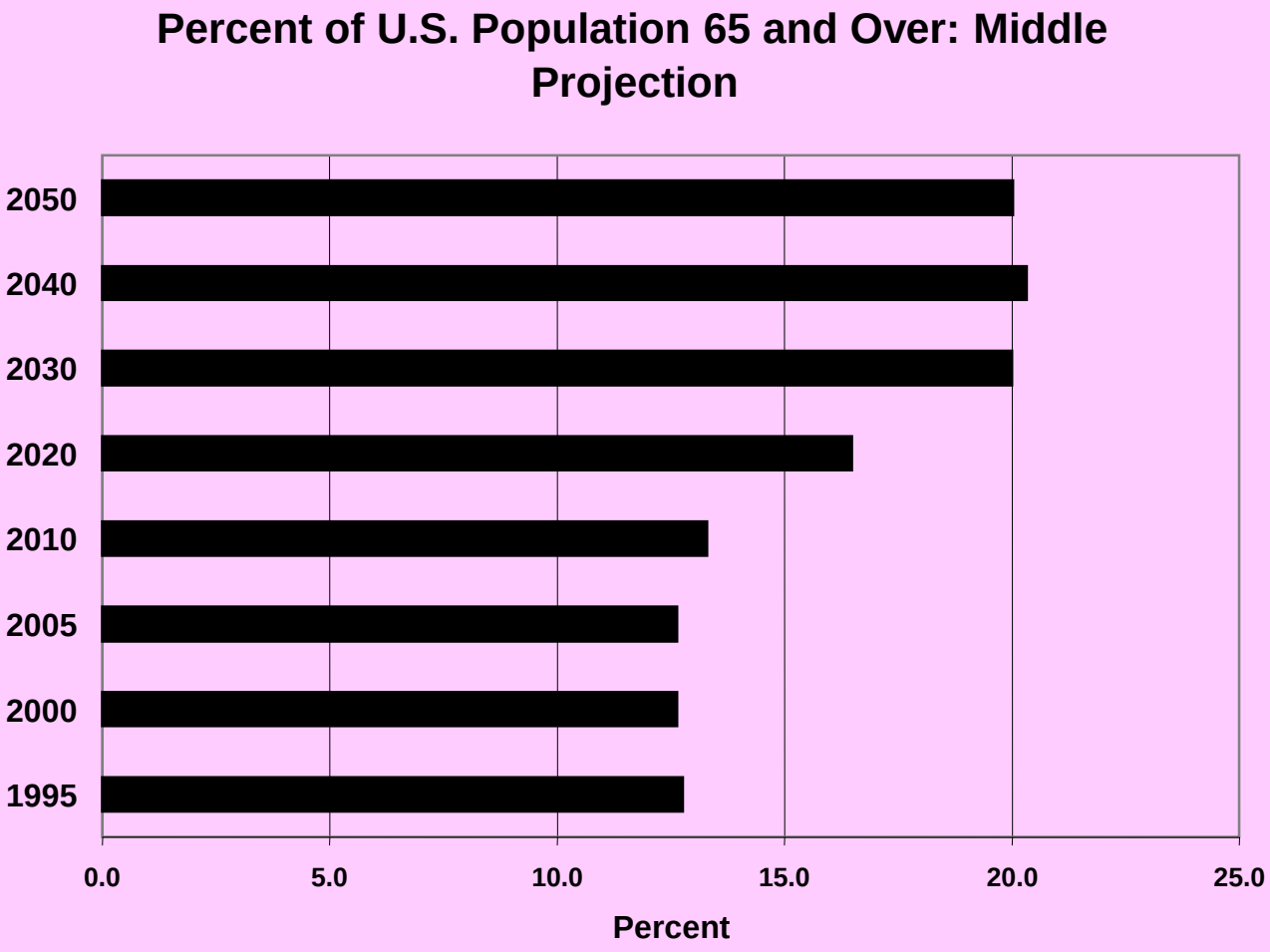
Demographics

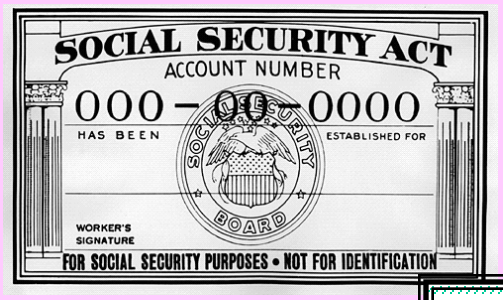
Employee Benefits

- **Health insurance**
  - **Control of costs**
  - **Reduction of consumer choice**
- **Pensions**
  - **Traditional defined benefit**
  - **Portable defined contribution**

Demographics

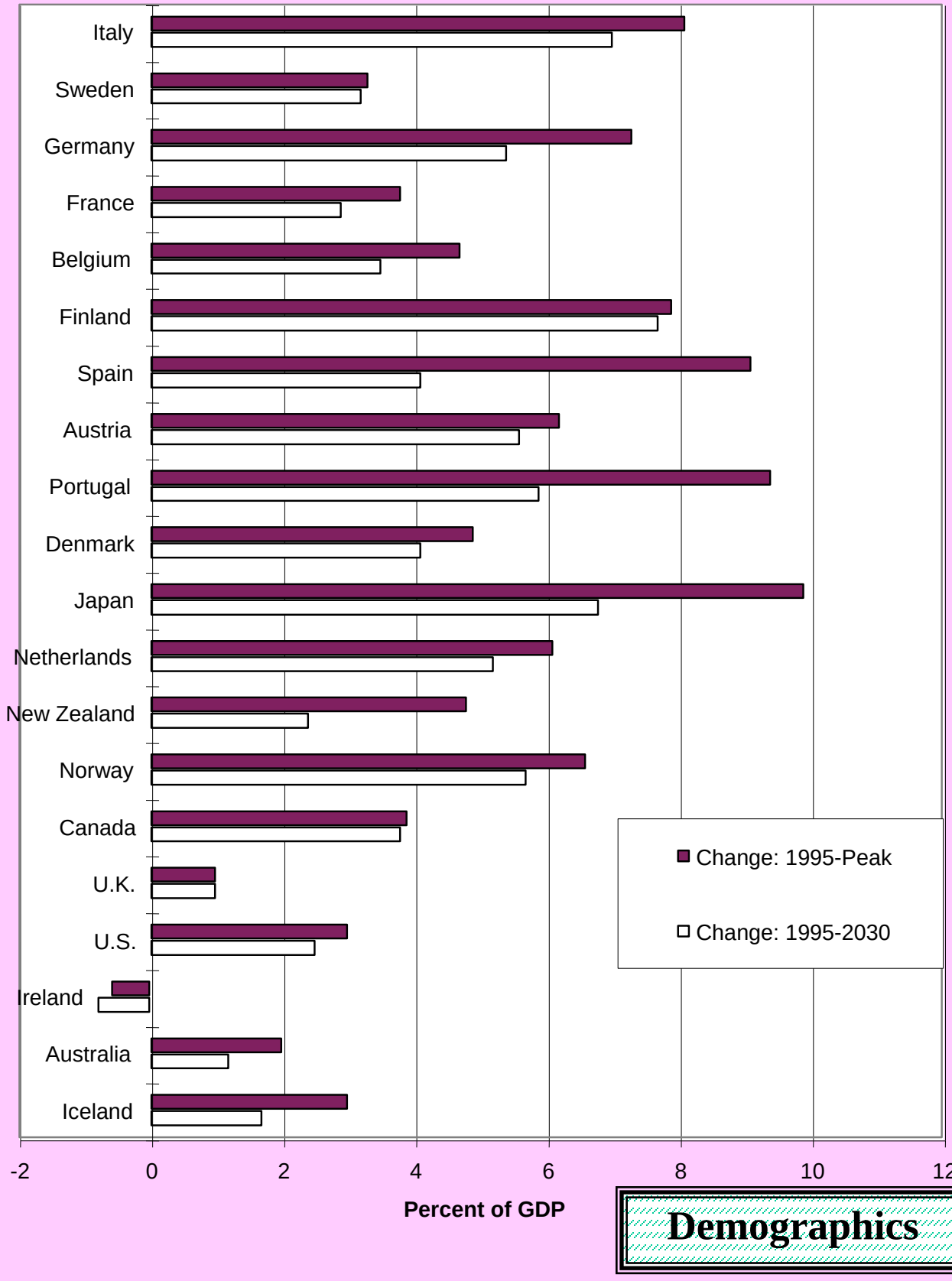
The boomers are coming!
The boomers are coming!





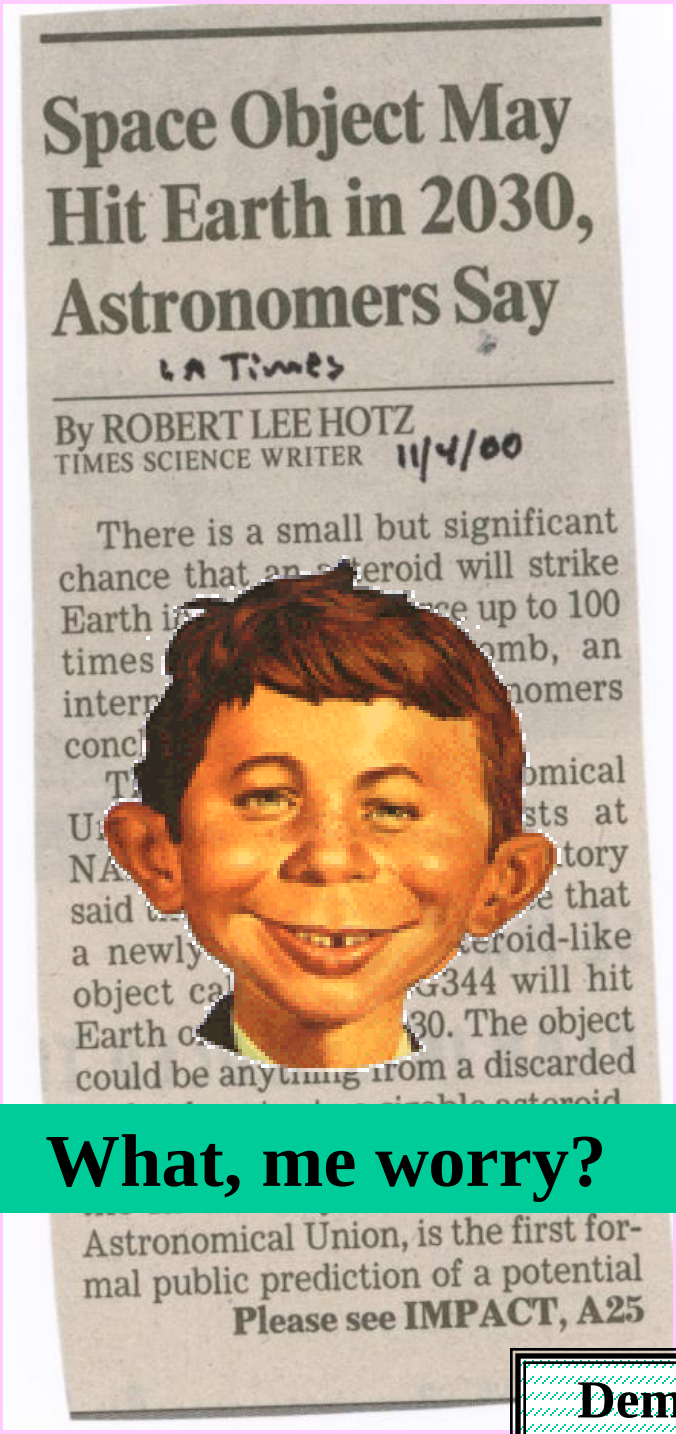
Demographics

Change in Public Pensions as Percent of GDP in 1994 Prices



Demographics

Maybe it's not a problem.



Space Object May Hit Earth in 2030, Astronomers Say

LA Times

By ROBERT LEE HOTZ
TIMES SCIENCE WRITER 11/4/00

There is a small but significant chance that an asteroid will strike Earth in [illegible] up to 100 times [illegible]mb, an [illegible]nomers conc[illegible]

T[illegible]omical U[illegible]sts at NA[illegible]tory said t[illegible]e that a newly [illegible]teroid-like object ca[illegible]G344 will hit Earth o[illegible]30. The object could be anything from a discarded

Astronomical Union, is the first formal public prediction of a potential

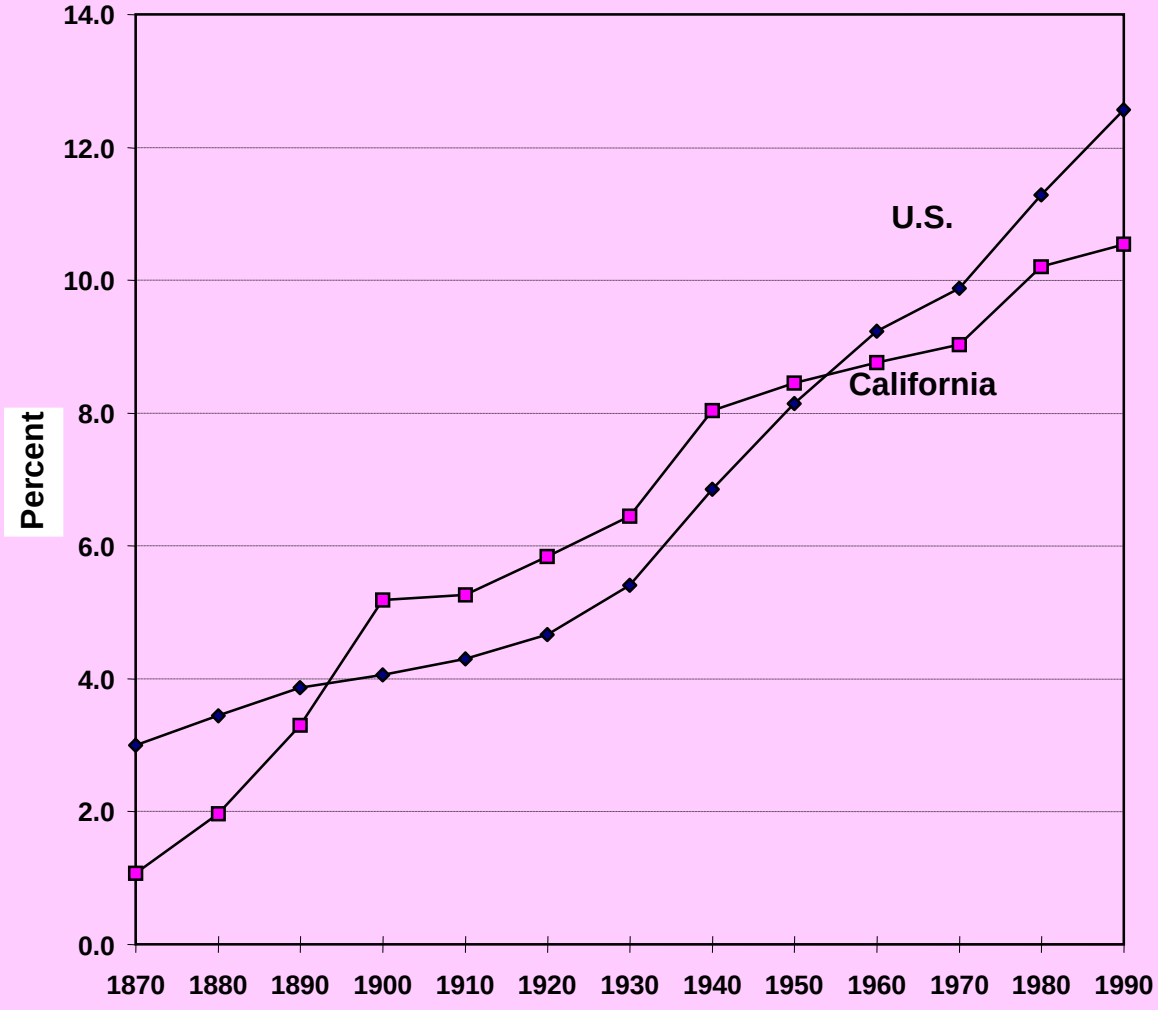
Please see IMPACT, A25

What, me worry?

Demographics

California's Demographic Past

Percent Aged 65 and Over: U.S. vs. California



Demographics

8. Gov. Frank E. Merriam (right) joining Townsend to help open the Townsend Plan's third annual convention. Held in the Los Angeles Coliseum June 20–23, 1938, the convention was attended by some 20,000 persons from all over the country.

YOUTH FOR WORK
OARP
LTD
AGE FOR LEISURE

The Townsend Plan Movement

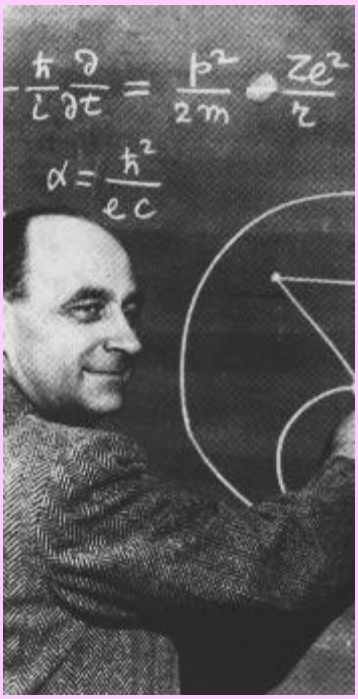
Demographics

Discussion Issues

- **How will governments deal with the upcoming retirement bulge over the long term?**
- **How will (should) firms deal with an aging workforce during the next decade?**
  - **Recruitment**
  - **Training**
  - **Evaluation and reward**
  - **Pay determination**
  - **Incentives**
  - **Benefits**
  - **Employee relations**

“Before I came here, I was confused about this subject. Now I am still confused, but at a higher level.”

Enrico Fermi



Uncertainty vs. Security vs. Demographics: *The World's Dilemma in Employment Relations*

April 26, 2001

Daniel J.B. Mitchell

Ho-su Wu Professor

Anderson Graduate School of Management and

School of Public Policy and Social Research